

EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE
MINUTES OF A SPECIAL APRIL 17, 2012 PENSION BOARD MEETING

1. Call to Order

Chairman Mickey Maier called the meeting to order at 11:55 a.m. in the Board Room of the Italian Community Center, 631 East Chicago Street, Milwaukee, Wisconsin, 53202.

2. Roll Call

Members Present

Mickey Maier (Chairman)
Dean Muller
Dave Sikorski
Monique Taylor
Patricia Van Kampen

Members Excused

Keith Garland
Dr. Sarah Peck

Others Present

Marian Ninneman, CEBS, CRC, ERS Manager
Mark Grady, Deputy Corporation Counsel
Matthew Hanchek, Interim Employee Benefits Administrator
Dale Yerkes, ERS Fiscal Officer
Brett Christenson, Marquette Associates, Inc.
Steven Huff, Reinhart Boerner Van Deuren s.c.
Marilyn Mayr, Prior Pension Board Member and Retiree
Yvonne Mahoney, Milwaukee County retiree

3. Chairman's Report

The Chairman first stated that since Ms. Bedford is no longer serving on the Pension Board, the vice chair position is open. The function of a vice chairperson is to act in place of the chair person if the chair person is absent, help plan agendas, and meet monthly with staff. Existing rules allow anyone to either nominate themselves or someone else.

Mr. Grady stated that the Board could defer the nomination process to the next Board meeting when more members would be present. The Chairman agreed to hold it over for the next meeting.

4. Minutes—March Pension Board Meetings

The Pension Board reviewed the minutes of the March 21, 2012 Pension Board meeting.

The Pension Board unanimously approved the minutes of the March 21, 2012 Pension Board meeting. Motion by Ms. Van Kampen, seconded by Mr. Sikorski.

5. Investment Committee Report

Mr. Christenson reported on the April 2, 2012 Investment Committee meeting.

The Investment Committee first discussed the index fund search and then reviewed the findings in Marquette's position paper, which indicated that active management does not provide greater returns on large-cap international investments. If a large-cap manager will be replaced, a decision will then need to be made to replace it with an index fund.

The Investment Committee next reviewed the 28 responses received from the mid-cap growth RFP as a result of terminating Reinhart Partners and placing the money in the iShares IWP ETF. Of the 11 candidates meeting the minimum requirements, three will be recommended to the Pension Board: William Blair, Geneva, and Frontier. Two of the candidates are from the top six candidates and one is from the middle group of candidates. Each candidate will present at the next Investment Committee meeting.

The Chairman then confirmed that the Investment Committee meeting will be formally noticed as a public meeting so anyone wanting to attend could do so, and that interviews with the candidates will be conducted in closed session.

The Investment Committee next discussed the analysis of past private equity commitments and future private equity commitments and how much to commit going forward. Marquette recommended to the Committee that \$40 million be committed to Adams Street 2012 and \$40 million be committed to Siguler Guff. The recommendation should be reviewed in the near future. While it is not urgent in the short term, Adams Street is closing the fund in the next few months.

In response to a question from the Chairman, Mr. Christenson confirmed that the new private equity investment recommendation is a result of increasing the asset allocation from 3% to 6%. The projection is that 6% allocation would be reached in approximately 5 years. Marquette will address the commitment at that time.

In response to a request from Ms. Taylor, Mr. Christenson agreed to provide materials from the Investment Committee meeting on private equity at the next Board meeting.

Mr. Christenson then stated that a flash report will be sent out in the next five days or so, along with information on the mid-cap growth managers and interviews.

6. Audit Committee Report

The Chairman reported on the April 4, 2012 Audit Committee meeting.

The Audit Committee first discussed the Pension Board election process. The existing rule allows for electronic voting by computer and phone, which moved the infrastructure away from the paper ballot process. However, in the last election there were a significant number of paper ballots. Overall, the question is how to gain higher participation. Also discussed was voting timeframe, currently over 4 days and including a weekend.

The Chairman then stated that Ms. Taylor reported the people she spoke with were more comfortable using paper ballots. The Chairman also stated that anyone can move to change the process, and that it may be beneficial to make a motion to extend the voting period as well as review the voting process to see where there is support.

Mr. Sikorski then stated that at a recent member meeting, he polled the 55 attendees to see how many received notification of the Pension Board election. Only 6 people raised their hands to indicate they received the notification through e-mail. Many of the frontline workers do not use a

computer for weeks at a time, and many are not computer savvy. Additionally, other members indicated they did not receive notification in the U.S. mail. The current system, then, does not accommodate all members, in his view.

Ms. Taylor then stated that while members can update address and phone information in self-service, they do not have access to a computer for voting. Most employees receive notification of voting codes in the U.S. mail, but do not understand what it is because it is the first communication they receive.

Mr. Hanchek then noted that ERS conducts online annual enrollments for employee benefits every year and experiences the same issue with employees not having access to a computer. However, kiosks can be set up throughout the County to allow people to use a computer. Mr. Sikorski agreed, but added that most employees simply meet with a payroll clerk or HR person instead of using the kiosks.

After general discussion by the Board, Ms. Mayr stated that current needs are for the retiree election and those retirees have less access to computers and do not like the telephone system. She suggested that paper ballots be sent out with monthly deposit notices for the retiree election.

In response to questions from the Chairman and Mr. Grady, Ms. Mayr stated that instead of holding the retiree election sooner and under current procedures, she would prefer to delay the election in order to first determine whether paper ballots would be an acceptable change in the voting procedure.

Ms. Mahoney then stated that a paper ballot process would be a positive change and suggested that a system be put in place to verify the ballots sent out are the ones returned.

The Chairman stated that the election issue came up at the last Pension Board meeting, and it was decided that the Audit Committee would review the matter and then return to the Board with proposed changes based on historical voting records. Since the topic is on the Audit Committee agenda, it will be held over now for a future Board meeting.

The Audit Committee next discussed ERS forms and letters. ERS has been working through optional and mandatory enrollment forms to make the options available to retirees clearer.

In response to a question from the Chairman, Ms. Ninneman stated that some of the forms are currently in production and some are being reviewed.

The Audit Committee then discussed the internal audit results.

In response to a question from the Chairman, Ms. Ninneman stated that she sent out a notice about the audit, indicating that the audit was performed at the periodic and routine request of the Finance and Audit Committee.

The Chairman continued by stating that auditors come in and review retirement files to verify everything is accurate and in order. The results of the audit indicate that overall everything checked out, but that there are problems with processing, especially on various optional forms and benefits, and there is a great deal of manual intervention in terms of reviewing.

Ms. Ninneman then stated that ERS responded in writing to the audit and that response was included on the back of the audit report. Most of the corrections needed are minor and include either system or procedure modifications. ERS is addressing each correction and agrees with all recommendations from the internal audit group. Most corrections will be put into effect by July 1, 2012.

Mr. Hanchek stated that many of the recommendations were already completed.

In response to questions from Mr. Sikorski, Ms. Ninneman stated that the change orders already submitted are to correct some of the technical system issues and procedures. Every pension that is processed goes through a quality control process involving three checkpoints to validate that the system is correct. Any programming errors are then tweaked.

In response to a question from the Chairman, Ms. Ninneman stated that some amount of data conversion is still necessary because when the V3 system replaced the old system, some of the data did not transfer over and required extremely precise data entry.

The Chairman then requested that Board members review the audit results prior to the next Board meeting. In particular, Option 7 issues are pertinent because the Schwartz-Nason case will be back before the Board with an Option 7 request. Also, Baker Tilly reviews internal controls and makes recommendations to the Board, and that will come up within the next few months.

In response to a question from Ms. Van Kampen, Ms. Ninneman stated that ERS will always perform manual checks as part of the new quality control model that ERS is building. However, after 2012, ERS hopes to have 99.9% confidence in the electronic system.

Mr. Hanchek responded that ERS would still want the review, but expects fewer manual interventions will be necessary.

The Audit Committee next discussed mandatory membership account distribution.

Mr. Grady noted that these issues will require a Pension Board rule change and the topic will be discussed again.

The Audit Committee then discussed Pension Board approved education, specifically whether all Certified Employee Benefit Specialist (CEBS) designation program courses should be added as approved Pension Board member education.

Ms. Taylor stated that the program includes courses on group benefits, compensation, and retirement plans. When transferring a retirement course credit to an HR compensation course, Ms. Taylor was informed by Ms. Ninneman that the HR and group benefits courses are not on the Pension Board's approved course list for conferences and educational sessions. However, Ms. Taylor feels that since the compensation course is part of a certificate series, and because the trustee manual encourages trustees to take trustee courses as well as ERS administration courses, and since ERS administration falls under HR, she believes the CEBS group benefits and compensation courses should be approved by the Board. It was the Chairman's suggestion that the topic be brought to the Audit Committee for consideration.

After general Board discussion, the Chairman commented that he did not think the Board had approved the broad base of such programs and that the Board has not funded personal wealth management courses in the past, either. The focus of the courses should be retirement benefits, in the Chairman's view.

Ms. Taylor stated that courses approved in the past included aspects of compensation and benefits. She has requested ERS fiscal records to verify this, but has not yet received them.

Mr. Hanchek then noted that ERS does not deal with employee compensation. While retirement benefits are a component of total

compensation, they are not part of the strategic practice of setting an employee's compensation.

The Chairman stated that ERS also does not deal with health benefits. If the courses Ms. Taylor wants to take include those other non-pension pieces, the courses should be funded by HR.

Mr. Grady stated the Board cannot currently take action on this topic because it is not unanimous. The Chairman agreed, inviting a motion when the Board is fully staffed.

In response to a question, the Chairman stated that the International Foundation annual conference takes place in November in San Diego. All trustees are listed as members of the International Foundation under the ERS account and should be receiving literature on conferences and workshops.

The Audit Committee concluded with a discussion about OBRA payouts. Mr. Stuller had concerns about notification to pre-1994 OBRA members regarding account distribution. Ms. Ninneman will follow up on those concerns.

7. Administrative Matters

The Pension Board discussed additions and deletions to the Pension Board, Audit Committee, and Investment Committee topic lists. The Chairman then stated that anyone with future topic suggestions should voice them.

The Chairman stated that the Board typically sends Mr. Grady to the National Association of Public Pension Attorneys Conference. Mr. Grady then stated that this conference was previously objected to on the basis that Corporation Counsel should cover all cost despite that Corporation Counsel's office already covers the annual membership. The Board disagreed with the objection.

The Pension Board unanimously approved Corporation Counsel's attendance at the annual National Association of Public Pension Attorneys Conference in Philadelphia. Motion by Mr. Muller, seconded by Ms. Taylor.

8. Disability Pension Matters

(a) Richard Graber - ADR

Mr. Grady stated that this disability is psychiatric in nature and the alleged disability prevents the sergeant from performing duties due to the stress of working in the Sheriff's office. A lawsuit is already pending. The primary doctor on the Medical Board contacted Mr. Grady about this case to inquire on the kind of physician he should have for the second and third doctors because he, himself, is an occupational medical specialist. Mr. Grady strongly encouraged him to obtain specialists in psychiatrics and psychology, which he did.

The Chairman stated that Mr. Graber's application was received by the Medical Board and recommended for approval. The Chairman stated that he reviewed the application and did not have any questions. In response to a question from the Chairman, no other member had a question.

The Pension Board unanimously approved granting the accidental disability pension application based on the Medical Board's determination. Motion by Mr. Sikorski, seconded by Mr. Muller.

9. Adjournment

The meeting adjourned at 11:55 a.m.

Submitted by Steven D. Huff,
Secretary of the Pension Board